



DRMI Newsletter

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C.J.'s Corner

Comments from Dr. C.J. LaCivita, Executive Director, DRMI



In the last newsletter, I reported on a DoD initiative to limit the number of new programs by employing systems thinking. While systems thinking is often thought of as primarily a strategic planning tool, participants in our programs know that we advocate its use

in all decisions, from the strategic to the operational. Recently, we have had several examples here at the Naval Postgraduate School (NPS) that highlight the consequences of not thinking systematically.

The first involved the new lecture hall that is (See "C.J.'s Corner" on page 2.)

Feature Article

Applying A New Management Model in the Joint Staff: An Executive Summary, by Dr. Francois Melese¹



I. Introduction

Agencies throughout the federal government face the same basic set of management challenges: i) accountability—tracking government spending on inputs; ii) efficiency—minimizing the costs of government activities; and iii) effectiveness—measuring outputs/outcomes and tying budgets to performance. A key objective in shifting government's focus from inputs to activities/outputs is to promote more robust cost-effectiveness analyses to improve agency investments and support Congressional decision-making. [Chief Financial Officers Act (1990 CFO Act), and Government Performance and Results Act (1993 GPRA)]

The challenge is that, at best, most Department of Defense (DoD) accounting systems track expenditures on inputs. Many were neither designed nor intended to report expenditures by activities or outputs. This challenge is especially acute for activities that cut across military services like the Chairman of the Joint Chiefs of Staff's "Joint Exercise Program" (JEP). To assist the Joint Staff to address these challenges, an ongoing project commissioned by the Joint Staff Comptroller leverages a new integrated public management model called the "**S**uper-**U**nified **C**ustomer and **C**ost **E**valuation **S**trategic **S**ystem" (SUCCESS). [Melese, Blandin & O'Keefe, 2004 www.ipmr.net]

Guided by SUCCESS, the J7/JEP and Joint Staff Comptroller team are currently integrating and mapping Air Force, Navy, and Army data by (See "Management Model" on page 9.)

¹ I would like to thank the Joint Staff Comptroller and J7/JEP team for their patience in helping me understand the intricacies of the Joint Exercise Program. Any errors or omissions are solely my responsibility, and the usual disclaimers apply.

C.J.'s Corner (Continued from page 1.)

being built for DRMI. A contractor is constructing the building. The contract specifies that the contractor is responsible for all wiring in the building, to include telephone, Internet, etc. NPS is responsible for bringing all wiring to the building. Each was looking at their part of the project. No one was looking at the entire system. Consequently, no one procured the \$7,000 worth of equipment necessary to connect the building to the NPS grid. Since the equipment was not in the budget, this led to several days of negotiations to determine who would pay for the equipment.

Another example of the lack of systems thinking occurred when NPS decided to replace the handles and locksets on all campus doors. Rather than a doorknob that is opened with a key, the new sets have a lever and are opened with a Common Access (ID) Card. These sets operate much like the door handle sets found on most hotel rooms. This sounds like a simple project: count the number of doors on base, buy enough new handle sets to replace them and install the new sets. Problems arose immediately. Half of the handle sets on DRMI's doors are square and are installed by cutting a square notch in the door. The other half are installed by cutting a circle in the door. The new handle sets require a circle to be cut in the door and can't be installed in the doors with the square sets. So, only half the locks have been replaced.

The other problem that arose is that no one thought about whom, in addition to the office occupant, needs access to the room. For example, no one thought about giving the janitors access. Consequently, for over a month we had to place our office wastebaskets in the hall in the evening so that the janitors could empty them. While neither of these examples led to serious problems, they did lead to delays and inconveniences that could have been avoided. When the lack of systems thinking leads to problems on large projects, the effects can be significant: large cost overruns and, even worse, ineffective systems. Thinking up front about all the ramifications of a course of action can save much time, money and effort later.

Speaking of our new lecture hall, it is now scheduled to be ready for use in July; we hope to begin using it with DRMC 07-4, which starts on 23 July.

DRMI News

SIDMC 07 commences

The Senior International Defense Management (SIDMC) course began on 25 June. The SIDMC is a resources management course designed for senior level military and civilian officials. SIDMC 07 has 53 participants from 30 countries. The participants' schedule includes an opening reception, a picnic with the DRMI faculty, a Monterey peninsula tour, and a long weekend in San Francisco in addition to many events with their community hosts.

Several DRMI alumni are attending the course (listed below according to participant name and current rank, service, country, course attended and, in parentheses, rank at time of course attendance):

- Capt Yanallah Talmes M. Al-Ghamdi, Navy, Saudi Arabia, IDMC 03-2 (Capt)
- Col Robert Christmas, Army, Botswana, MIDMC 2000 (LTC)
- MGEN Trond R. Karlsen, Air Force, Norway, DRMC 94-1 (Maj)
- Col El Nayar, Army, Argentina, MIDMC 2005 (Col)
- Col Mooketsi Kenneth Nethibogile, Army, Botswana, MIDMC 2000 (Maj); IDMC 05-1 (LTC)
- 1LT Lauri Orgse, Army, Estonia, IDMC 02-2 (3LT)
- RADM Juha Rannikko, Navy, Finland, IDMC 99-1 (CDR)
- Mr. Janko Steh, MOD, Slovenia, IDMC 97-1 (LTC Army)



SIDMC 07 course participants.

DRMI concludes DRMC 07-3

DRMC 07-3 commenced on 21 May with 21 participants from 9 countries. The course ended 15 June.



DRMC 07-3 participants.

DRMI concludes DRMC 07-2

DRMC 07-2 commenced on 23 April with 36 participants from 13 countries. The course ended 17 May.



DRMC 07-2 participants.

IDMC 07-1 concludes

IDMC 07-1 concluded on 18 April with a graduation dinner and ceremony. The 35 participants of the IDMC represented 26 countries.



Executive Director C.J. LaCivita gives BG Abdel Rawashdeh (Jordanian Air Force) his IDMC diploma.

Malaysia MIDMC, by CDR Joel Modisette



DRMI faculty recently completed their ninth consecutive Mobile International Defense Management Course (MIDMC) 07-06, in the vibrant and diverse Kuala Lumpur, Malaysia June 4 – 15, 2007. Malaysia integrates DRMI's MIDMC course into the year long Malaysian Armed Forces Defence Course. The two-week MIDMC served as the opening segment of the defense resources management block for senior officers.

We were pleasantly surprised on the first day of the course to see General Peter Pace, United States Chairman of the Joint Chiefs of Staff. The faculty and students all shared a traditional Malaysian lunch with General Pace and his staff, followed by a group photo with the general.



Malaysian MIDMC participants, Malaysian Defence College Faculty and DRMI Faculty pose with GEN Peter Pace, CJCS, in the class photo on the first day of instruction.

This MIDMC instructed 40 students from the Malaysian Armed Forces, police force, and Ministry of Defence. The countries of Philippines, Vietnam, Singapore and Indonesia participated in the DRMI course as students of the Defence College. Dr. Kogila Balakrishnan from the Malaysian Administrative and Diplomatic Corps also joined the MIDMC lectures and discussions. Dr. Balakrishnan recently received her PhD in Economics/Technology Transfer from Cranfield University at the Defence Academy in the UK.



Captain Dato' Lee Kwang Lock, RMN, Director Navy Staff at the Defence College, and Dr. Kogila Balakrishnan from the Malaysian Administrative and Diplomatic Corps, provided tremendous support to the DRMI team.

The DRMI faculty team in Malaysia included course coordinator CDR Joel Modisette (USN), Dr. C.J. LaCivita, Dr. Robert McNab, Senior Lecturer Steve Hurst and Lecturer Luis Morales. Three of these five faculty have taught in Malaysia at least twice before. The DRMI team found familiar faces at the Malaysian Defence College, as CAPT Lee, Director of Navy Staff at the Defence College, graduated from the May 2007 DRMC only one week prior to our arrival. The Commandant, Director of Army Staff at Defence College, Director of Air Force Staff at Defence College, and new Malaysian Royal Navy Chief of Staff are all graduates of DRMI resident courses.

Looking to the future, the Malaysian government has proposed that DRMI return to Kuala Lumpur in both 2008 and in 2009; DRMI is thrilled to continue the long-standing DRMI-Malaysian government relationship.

Honduras MIDMC, by Senior Lecturer Larry Vaughan



DRMI presented its 16th MIDMC in Tegucigalpa, Honduras from 16-27 April 2007. The 43 participants included 12 military and 31 civilians comprised of two congressmen, three judges, one presidential staffer, ten representatives from civilian ministries, four university

professors, seven representatives from national institutes and bureaus, one person from the mayor's office, two individuals from church ministries and one representative from the Family Federation for World Peace. The mix of military and civilian participants led to animated debate during the small group discussions and greatly enhanced the exchange of views, ideas, and network-building among this group of military and civilian leaders.



Honduran MIDMC participants

The Deputy Secretary of Defense, Adolfo Lionel Sevilla, formally opened the course and the Deputy Chief of Staff, General Nelson Willys Mejia Mejia, and Colonel Jeffrey A. Moragne, U.S. Military Group Commander, also welcomed the students. The Armed Forces Inspector General, Brigadier General Jose Rene Oliva Euceda, formally closed the course and encouraged the participants to continue the interest and hard work they demonstrated during the two weeks of the course.

DRMI faculty included Dr. Jim Blandin, Lecturer Luis Morales, Dr. Anke Richter, Senior Lecturer Larry Vaughan (course coordinator) and Dr. Natalie Webb.

Colombia MIDMC, by Senior Lecturer Don Bonsper



DRMI conducted its seventh mobile course in Colombia since 1994 at the Embassy Suites Hotel facilities in Bogotá, 9-20 April 2007. The course provided an opportunity for highly qualified and motivated participants to discuss and analyze the implications of efficient and

effective defense resources management and facilitated a productive interaction among military and civilian participants.



Colombian MIDMC participants playing TEMPO.

The outstanding group of 24 participants all came from the Colombian Ministry of Defense. The military officers were from various staff sections within the ministry and general staff. They included four army officers, four police officers and five navy officers. The 11 civilians represented a variety of functions within the ministry including: contracting, planning, services and acquisition, technical standards, finance, military industries, legal affairs and logistics.

The DRMI team consisted of Dr. Jim Airola, Dr. Jomana Amara, Senior Lecturer Don Bonsper (course coordinator), CDR Joel Modisette, and Dr. Eva Regnier. DRMI expects to conduct an annual course in Colombia for the next few years.

Participant News

IDMC 07-1 class notes

LTC Aferdita Blaka (IDMC-07-1) of the Albanian Army sends DRMI her regards. She relayed the following message: "I'm so proud I took part at DRM in your Institute, because it is helping me in my job."

Major Rim Chanbeh (Tunisian Army) wrote the following poem for the IDMC 07-1 graduation ceremony:

Good-bye DRMI, by Maj Rim Chanbeh

I had a dream, coming to USA
11 weeks ago I came to Monterey.

I felt all special since the first day.
How not, it was my birthday.

Do you remember that day?
It was just like yesterday.

DRMI opened for us her door;
It was on the 4th floor.

I met you for the first time and together
We discovered each other.

Students and teachers.
Different countries, different cultures

But all had been involved
With Drmecia budget.

Inputs, Incomes
Outputs, outcomes.

I will remember every word
Used in Drmecia magic world.

But I cannot go before I say
To all the stuff of C.J.

Thank you for all you've done
Lectures, discussions,
Jokes, visits, a lot of fun.

What can I say? What can I do?
So many emotions I have today for you.

I'm gonna leave you with a tear in my eye
A beautiful rose in my heart called DRMI

I will have you always in my mind
So don't forget me, keep me around.

As you know
Everyone has to go.

We are missed there.
Some are waiting there

So my friends be happy.
Soon you will be in family.

And now let me say
Good-bye Monterey
To all of you, Good bye
To Drmecia and DRMI.

I had a dream,
To visit USA.
It will be my dream
To come back to Monterey.

Capt Abbas Ghazanfar, Navy, Pakistan, IDMC
07-1 sent greetings to DRMI faculty and staff.

IDMC 06-2 class notes

Dear friends:

Receive my congratulations in the U.S. Armed Forces Day. I was in your embassy at Buenos Aires today, sharing with my U.S. military friends a nice ceremony, but in my heart there are and always will be an important place for all of you: the staff, teachers and administrative personnel of that well remembered NPS. Have a nice day and God bless you all. Please, send my congratulations to all of them.

Thanks a lot.

Col Enrique Tonazzi Dieterich
Joint Deputy Chief of Staff for Intelligence
Argentine Armed Forces (IDMC 06-2)

Maj Jean-Baptiste Tossou, Army, Benin, IDMC
06-2 sent greetings to DRMI faculty and staff.

IDMC 05-2 class notes

Col Dragan Zmajevic, Army, Bosnia & Herzegovina, IDMC 05-2 sent greetings to DRMI faculty and staff.

IDMC 05-1 class notes

Dear Professors and Friends,

I would like to greet my friends and colleagues from DRMI course and wish all the best. I have great news: I have been appointed as a Defence Attaché of Georgia to Lithuania, Latvia, Estonia and Poland. I'll start my duties soon, in June or July. I'll inform you about new contacts upon arrival to Vilnius (there will be a residence at the Georgian Embassy).

Once again, I would like to express my sincere compliments to you all and wish you all success.

Very respectfully,

Lela Chikovani
Defence Attaché of Georgia to the Baltic States
and Poland

IDMC 95-1 class notes

Former DRMI graduate S.E.M Mahamoud Adam Bechir from Chad visited DRMI on 8 June. Having attended the IDMC as an army major and chief pharmacist at the military hospital, he is now the Ambassador for Chad in Washington D.C. He fondly remembered his course attendance, after which he returned to NPS in 1997 to receive his master's degree. He mentioned that without the opportunity of attending DRMI, he would not be where he is today. Unfortunately due to the timing of his visit, which was during the Malaysian MIDMC, he was unable to meet with everyone. He was, however, able to speak with Dr. Francois Melese, Dr. Jim Airola, Dr. Jomana Amara, Dr. Kent Wall, LTC Mark Hladky and Senior Lecturer Larry Vaughan.

IDMC 94-2 class notes

BG Andrzej Falkowski (Polish MOD), a Navy LCDR at the time of his 1994 IDMC attendance, wrote to inform DRMI that he would be attending a two-week CCMR course. He is excited to return to Monterey after 13 years.

Curriculum Development, Teaching News and Service

New Course Opportunities for US Participants

As you know, DRMI has developed a number of new resident courses over the last couple of years:

- Multi-Criteria Decision Making
- Budget Preparation, Execution and Accountability
- Streamlining Government Through Outsourcing, Privatization and Public-Private Partnerships Course
- Base Realignment, Closure and Economic Redevelopment Course
- Financial Integrity, Accountability and Transparency

These courses were originally designed for international participants, but we are now making them available to U.S. participants. As with other resident courses, there is no tuition for U.S. participants; however, your command is responsible for travel and per diem. See our web site for more information.

Dr. Diana Angelis taught Engineering Economics and Cost Estimation course



Professor Diana Angelis taught SE3011 (Engineering Economics and Cost Estimation) for the department of Systems Engineering this spring quarter. The course is part of a Master's program in Systems Engineering offered to Navy personnel (civilians and military) through the Meyer Institute of Systems

Engineering. Students work full-time while obtaining their NPS degree through a combination of video teleconferencing, web-based courses, video streaming and periodic site visits from the instructor. Dr. Angelis had a chance to meet with her students at Pt. Hueneme four times in the past quarter.

Dr Anke Richter taught homeland security course



During the spring quarter, Dr. Richter co-taught the Special Topics in American Government for Homeland Security course in the Center for Homeland Defense and Security at the Naval Postgraduate School. There were 24 students representing local, state, federal and

military homeland security leaders. The course covered issues arising in current debates about homeland security with a focus on border, transportation and health security. Cutting across these security risks is the dilemma increasingly evident in the level of community preparedness to meet prevention, mitigation and response objectives. Within the course, Dr. Richter focused on public health preparedness and how it is interrelated with issues of borders, communities, and transportation.

Staff and Faculty News

Dr. Diana Angelis attends Air Force course

Lt Col Diana Angelis attended a one-week course titled Air Force Smart Operations for the 21st Century (AFSO21) at Travis AFB 30 Apr to 4 May 07. The course is designed to train facilitators for Air Force rapid improvement events (RIE). Last year Lt Col Angelis developed a graphic to introduce the Air Force Flight Test Center to the concepts of AFSO21, which the Air Force adopted for its AFSO21 training. Lt Col Angelis followed up her AFSO21 training by participating in a RIE at Travis 22 – 24 May 07. The Air Force held the event to improve the maintenance of mobile electric power units at Travis AFB and successfully identified actions to reduce the throughput time by almost a month.

Conference Presentations, Research and Publications

Dr. Jomana Amara presents paper at two conferences



In early July, Dr. Jomana Amara will make two presentations of a paper entitled "The Deferred Cost of War: Short and Long Term Impact of OEF/OIF on Veterans' Health Care." On 2 July she will deliver the paper at the Western Economic

Association Conference in Seattle, WA and on 7 July she will present at the Conference on Economics and Security in Bristol, England. Dr. Amara coauthored the paper with Dr. Ann Hendricks, Director of Health Care and Financing & Economics, Veterans Affairs Boston, Boston University School of Public Health.

The paper analyzes the implications for the Veterans Health Administration (VHA) given an increased demand for health care services from the veterans of Operation Enduring Freedom and Operation Iraqi Freedom (OEF/OIF). We conclude that although the pressing needs of newly discharged veterans require immediate attention, the demands of the aging Korean and Vietnam War cohorts, in terms of the number of patients and the average cost of their care, will nationally overshadow OEF/OIF veterans' demand for immediate post-deployment VHA services. In addition, we anticipate that long-run care needs for aging OEF/OIF veterans will be a major concern.

Dr. Jomana Amara attends consultative session at Africa Center for Strategic Studies

On 19 January Dr. Jomana Amara represented DRMI at the Africa Center for Strategic Studies in Washington D.C. at the Managing Security Resources in Africa consultative sessions. Representatives from the Department of State, Office of the Secretary of Defense (OSD), and U.S. Agency for International Development (USAID) also attended the sessions. The consultative sessions were intended as a review of the Resource Management Course that was conducted in Ghana (December 2005) and as a forum for program development and recommendations for a resource management course that the Africa

Center will host in Malawi for countries in South Africa in September 2007.

Dr. Diana Angelis and Dr. Francois Melese present paper with coauthors Dr. Chip Frank and Mr. John Dillard at Acquisition Research Symposium

Dr. Diana Angelis and Dr. Francois Melese (DRMI), along with co-authors Dr. Chip Frank and Mr. John Dillard (both NPS senior lecturers), presented a paper titled "Leveraging Insights from Transaction Cost Economics (TCE) to Improve DoD Cost Estimation" at the 4th annual Acquisition Research Symposium held 16-17 May, 2007 at the Embassy Suites in Monterey, CA. The Acquisition Research Program of the NPS Graduate School of Business & Public Policy sponsored the symposium. The paper explores how conventional cost estimating techniques focus on production costs, while TCE emphasizes another set of costs – primarily the costs of coordination and motivation (e.g., search and information costs, decision and contracting costs, monitoring and enforcement costs). The primary insight drawn from TCE is that correctly estimating the economic production costs of an acquisition is necessary, but not sufficient. The choice of contract, organization, and incentives along with key characteristics of markets and transactions (uncertainty, complexity, asset specificity, frequency, and contestability) must be included to obtain reliable cost estimates.

A Study of Navy reenlistment policy, by Senior Lecturer John Enns



Senior Lecturer John Enns has received funding to study a policy of indefinite reenlistment for Navy petty officers. The Navy has been considering shifting its senior enlisted force from a fixed enlistment contract system to indefinite reenlistment—the system the Army and Coast

Guard converted to in 1998 and 2001, respectively. The indefinite reenlistment policy requires all soldiers with a rank of E-6 or higher to reenlist indefinitely. Their new separation date becomes either the year they are required to separate (if not promoted) or their retirement date (in many cases, a voluntary decision), whichever occurs first. Of course, a member can request

to leave service at any time-- which mirrors the officer system. The Army is satisfied with the program and has no plans to change it.

A portion of the study will examine the possible problems caused by implementing such a policy for Navy managers. A Markov-chain type analysis will be performed comparing the results of the current system with hypothetical results of an indefinite reenlistment system. Some differences/risks could be:

- Sailors separate more frequently because of a fear of being involuntarily retained;
- The system involves extra costs and a restructured compensation package;
- A perception among sailors of a loss of negotiation power for PCS orders.

An advantage of such a system would be that Navy manpower managers could easily coordinate petty officer department head assignments with officer assignments aboard ships. It would allow managers to stabilize fleet enlisted leadership and manpower/ distribution planning commands because they would not have petty officers leaving mid-tour due to their separation date. Since both types of personnel would be under the same reenlistment and separation policies the assignment of personnel could be accomplished in a more systematic fashion.

Dr. Natalie Webb presents workshop at Professional Development Institute



Executive Director C.J. LaCivita and Dr. Natalie Webb attended the Professional Development Institute (PDI) of the American Society of Military Comptrollers (ASMC) in Kansas City, Missouri, 31 May – 2 June. The PDI is a premier training event for resources managers in the Department of Defense and U.S. Coast Guard.

The PDI program objective is to enhance skills and abilities that personnel in the financial and resource management community must possess to meet the challenges of working in the 21st century. The PDI focus is on education and training, and includes sessions that provide updates to emerging issues and helps individuals transform today for tomorrow's success.

More than 3,300 attendees converged in Kansas City for the four-day event, which included a full day of service activities, seven general sessions, more than 70 workshops and many special events. On 31 May, Dr. Webb presented a workshop titled, "Performance Measurement." Dr. Webb explored critical issues surrounding the question: what should we measure and why? She discussed important linkages between strategic planning, program decision-making and program execution. She stressed measuring outcomes and outputs, which are important in determining whether an organization is meeting its goals and objectives.

Publications

Amara, J. (in press). Military Industrialization and Economic Development: Jordan's Defense Industry. *Review of Financial Economics*.

Amara, J. (2007). Evaluating NATO Long Run Defense Burdens using Unit Root Tests. *Defence and Peace Economics*, 18(2), 157-181.

Management Model (Cont. from page 1)

exercise. This ongoing initiative is building a foundation for future analysis and evaluation of the efficiency and effectiveness of joint exercise activities.

Resting on fundamental micro-economic and accounting principles, SUCCESS integrates three widely used business management frameworks that underpin many commercial Enterprise Resource Planning (ERP)² applications, together with the Planning, Programming and Budgeting System (PPBS). These include: i)

² A descendent of the management information systems (MIS) and Material Resource Planning (MRP) movements, Enterprise Resource Planning (ERP) was initially led by SAP, a German software company. Today, multiple suppliers including IBM, Microsoft, PeopleSoft, Baan, Seibel, and others offer ERP applications designed to streamline and integrate operation processes and information flows in a company to increase productivity and cut costs. These customized software solutions apply the latest data base, reporting and analysis tools in an attempt to measure, monitor and integrate various functional areas like: manufacturing, sales and marketing, distribution, customer service, accounts payable/receivable, purchasing, inventory and material planning, human resources, financial accounting, asset management, project scheduling, etc.

Activity-Based Costing [ABC: Johnson & Kaplan 1987, Brimson & Berliner 1988; Player & Cobble 1999]; ii) the Balanced Scorecard [BSC: Kaplan & Norton, 1992; 1996a,b; 2001]; and iii) Total Quality Management (TQM: Lean, Six Sigma, etc.)—captured here primarily through the She-whart-Deming “PLAN-DO-CHECK-ACT” cycle of continuous improvement [PDCA: Deming 1986, Senge 1997].³

PPBS was originally designed as a high-level management information system to facilitate constrained optimization to achieve a form of “allocative efficiency” within DoD—to maximize national security subject to fiscal constraints. As originally conceived PPBS was meant to assist senior defense officials to establish activity/output (or “capability”) priorities within the budget, and to shift financial resources and guide investments among defense programs—and across the military services—from less to more productive uses in response to changes in the national security environment. [Schick] “The ultimate objective of PPBS shall be to provide...operational commanders-in-chief the best mix of forces, equipment and support attainable within fiscal constraints.” [DODD 7045.14 May 22, 1984]

Today, a new emphasis on “Execution” is reflected in a new name—PPBE. A “capabilities-based” PPBE process is currently being implemented to make high-level defense resource allocation decisions for DoD that culminate in the annual defense budget submitted by the President to Congress. [MID 913] SUCCESS offers a lower level integrated public management model that supports this effort and that captures the spirit of PPBE.

SUCCESS was first applied to generate fresh insights into two ongoing U.S. federal management initiatives: i) the Congressionally-mandated “Government Performance and Results Act” (GPRA), and ii) the “President’s Management Agenda.” [Melese, et. al., 2004] Subsequently, SUCCESS provided a conceptual model that helped guide the development and evaluation of

the new PPBE Process in DoD’s latest Quadrennial Defense Review (QDR). [QDR IPT #5 2005; QDR 2006]

This executive summary reviews a study (available upon request at fmelese@nps.edu) that reports on an ongoing pilot program initiated by the Joint Staff Comptroller to implement the SUCCESS framework to support J7 (Operational Plans & Interoperability) in managing the Chairman of the Joint Chiefs of Staff’s two hundred million dollar “Joint Exercise Program” (JEP). The success of this effort could serve as a template for other organizations in the Joint Staff and throughout the Department of Defense. The next sections introduce SUCCESS and offer a brief background and review of the model through its application to the Joint Staff’s Joint Exercise Program.

II. Leveraging SUCCESS and PPB to Study the Joint Exercise Program (JEP)

The Joint Staff’s FY 2008 Budget Highlights describes the Joint Exercise Program (JEP) as “the Chairman and Combatant Commanders’ principal vehicle for achieving joint and multinational training.” [JS Comptroller March 2007 p.19] In a section of the latest QDR entitled “Build the Right Skills” the focus is on “Maintaining the capabilities required to conduct effective multi-dimensional joint operations [including] battle-field integration with interagency partners and combined operations—the integration of the joint force and coalition forces...” [QDR Report 2/6/06 p.77]

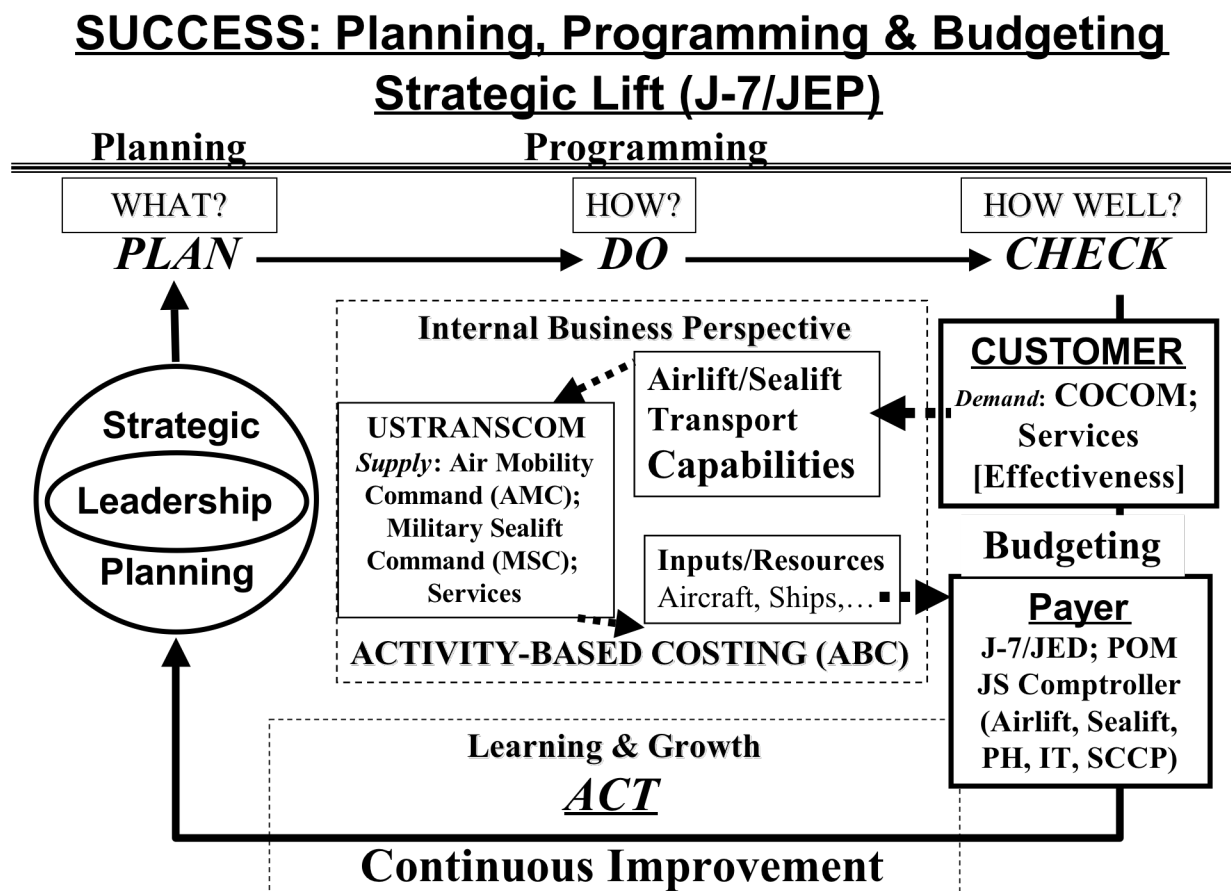
The Joint Education and Training Division of J7 (Operational Plans & Joint Force Development) manages JEP. The Joint Staff’s exercise budget funds only the transportation of personnel and equipment to worldwide exercises. J7 manages the strategic transportation program while the Joint Staff Comptroller is responsible for funding strategic lift for the exercises. At the level at which J7 operates, the key players are: the Combatant Commanders (COCOMs), the U.S. Transportation Command USTRANSCOM {Air Mobility Command (AMC), Military Sealift Command (MSC), Surface Deployment and Distribution Command (SDDC)}, the Services, J7/JEP, and the Joint Staff Comptroller. Figure 1 illustrates the relationships of each of these key players within the context of the SUCCESS model. It also reveals key linkages between PPBS and SUCCESS as it applies to JEP.

³ An important consequence of the PDCA cycle through SUCCESS is that it emphasizes continuous monitoring and evaluation of customer-driven measures of performance, along with costs/budgets, to reveal returns on investments. This results in an ongoing evaluation of planned vs. actual budgets and planned vs. actual performance/ effectiveness, which completes the closed-loop feedback cycle built into SUCCESS.

The different responsibilities and perspectives of each key player (COCOM, USTRANSCOM, and J7) are reviewed and interpreted below in the context of the SUCCESS model illustrated in

Figure 1. Applying the PPBS Cycle described in JEP's "Coordination Procedures" offers valuable insights in the context of SUCCESS. (Enclosure L, CJSM 3500.03A 1 Sept. 2002

FIGURE 1: SUCCESS for JEP—A PPB Perspective



PLANNING— The first-loop through SUCCESS is launched with a “*PLAN*” phase where defense planning and fiscal guidance prompts a review by COCOMs of their missions, goals and objectives for JEP. [Figure 1] The Customers in this context are the COCOMs who have a derived demand for strategic lift to support their planned exercises.

PROGRAMMING— The subsequent “*DO*” phase in SUCCESS corresponds to the Programming phase in PPB. In this phase organizations review existing activities, and identify incremental adjustments and investments in their processes and/or products (capabilities), to “supply” services that respond to the planning guidance. For JEP, the production and supply of

strategic lift is largely in the hands of USTRANSCOM. They combine available inputs (military aircraft, ships, commercial charters, etc.) to produce strategic lift outputs (transport capabilities) required by the COCOMs.

BUDGETING— The “*CHECK*” phase in the first loop through SUCCESS requires organizations to develop budget estimates that are eventually rolled up into the Program Objectives Memoranda (POM) of the Services, Defense Agencies and Joint Staff. After being vetted at different levels, these program proposals ultimately find their way into defense budget estimates included as Budget Estimate Submissions (BES) in the President’s Defense Budget submitted to Congress. The estimated input costs for JEP

make up the strategic transportation budget that is the primary responsibility of J7 and the Joint Staff Comptroller.

III. New Insights from Activity-Based Costing (ABC)

The first step in applying Activity Based Costing/Budgeting (a key pillar of SUCCESS) to the Joint Exercise Program (JEP) is to recognize that the “activities” are joint exercises. The next

step is to recognize the three distinct perspectives of the players. The perspectives of the COCOM-Customer, J7-Payer, and USTRANSCOM-Producer/Supplier are illustrated in Figure 2 as three matrices (of activities on inputs) in the context of the first (PPB) loop through SUCCESS. Cascading down these matrices reveals the “Planned Budget” for Strategic Lift for the Joint Exercise Program (JEP).

FIGURE 2: Planned Budget Perspectives—COCOM, J7, USTRANSCOM

J-7/JEP Data Transparency: **PLANNED**

Customer/User: COCOM Perspective

EXERCISE	PEOPLE	EQUIPMENT	TRAVEL	TOTAL COST
E-1				
E-2				
E-3				
E-4				
E-5				
E-6				
E-7				
E-8				
E-9				
E-10				
TOTAL COST				

**First Loop PPB =
PLANNED Budget**

Payer: J-7/JEP Perspective

EXERCISE	AIRLIFT	SEALIFT	IT	PH	TOTAL COST
E-1					
E-2					
E-3					
E-4					
E-5					
E-6					
E-7					
E-8					
E-9					
E-10					
TOTAL COSTS					

Supplier: USTRANSCOM (AMC) Perspective

EXERCISE	C-130	C-141	C-5	C-17	KC-10	KC-135	COMMERCIAL COST	CHANNEL CARGO	ALFT COST (SUB-TOTAL)	COMMERCIAL TICKET AUTH	GRAND TOTAL
E-1											
E-2											
E-3											
E-4											
E-5											
E-6											
E-7											
E-8											
E-9											
E-10											
TOTAL COSTS											

COCOM Perspective: The first and highest level (“Effectiveness”) perspective is that of the COCOM customers. Any attempt to increase effectiveness at this level involves an (implicit) constrained optimization: maximizing joint and combined troop capabilities through training exercises, subject to fiscal constraints. The solution requires an evaluation of the marginal benefits and costs of expanding (or funding) one exercise relative to another. This requires estimating the total costs of an exercise and combining this data with some measure of effectiveness (MOE) of each exercise. Note that in the top matrix of Figure 2, the Strategic Lift (Transportation) column of the total costs of an exercise is a J7 and Joint Staff Comptroller responsibility. The total Strategic Lift budget for a given year is simply

the sum of the entries in that column. The current J7/JEP-SUCCESS initiative involves an effort to combine and integrate data across the services to facilitate the collection of strategic lift cost data by exercise. The top matrix in Figure 2 offers the Joint Staff a way to focus on how J7’s efforts might contribute to and facilitate a higher level optimization. The challenge is to combine timely, accurate, and complete Strategic Lift cost data with other joint exercise costs (personnel, equipment, etc.) to support cost-effectiveness evaluations of joint exercises to globally optimize force capabilities.

J7/JEP Perspective: The second, lower level perspective, is also the most relevant to J7 and the Joint Staff Comptroller. The middle matrix in

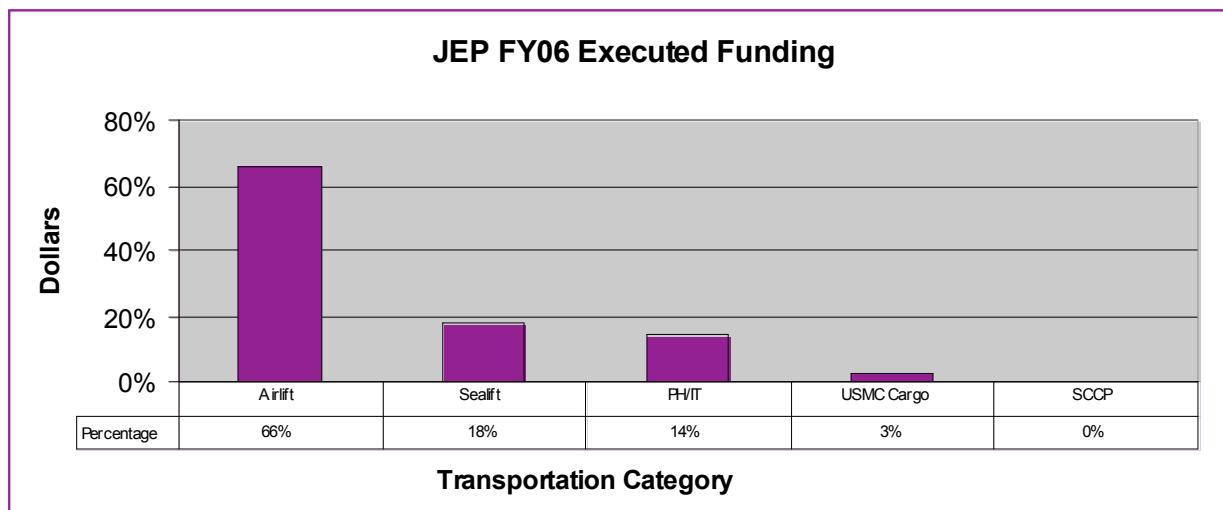
Figure 2 breaks Strategic Lift into its various components. In order to identify Strategic Lift costs of each exercise, J7/JEP must capture the complete costs of Airlift, Sealift, Inland Transportation (IT), Port Handling (PH), etc. across all the services involved in a particular exercise. To complete the cells of this matrix to build a budget for strategic lift J7 must first obtain estimates from the COCOMs of the number of passengers (#pax) and amount of cargo to be transported to support their joint exercises. Cost estimates can be generated by multiplying the expected number of passengers and amount of cargo by a forecast of an average total (unit) cost or price per passenger or cargo mile (\$/pax or cargo/mile) obtained from USTRANSCOM.⁴

To improve cost transparency in the management of joint exercises, accounting systems need to report total costs of program inputs (CTP, Airlift, Sealift, PH, IT, etc.) by individual exercise.⁵ Some initial results of J7's data collection efforts are illustrated in Graph #1.

⁴Recent dramatic increases in revolving fund rates (a 5.2% increase for FY2007, followed by a 44.4% increase for FY2008) pose a significant challenge to efforts to forecast future JEP costs/budgets. [President's Budget 2/2007 for 2008-9 "TRANSCOM WCF Budget Overview p.83]

⁵Some accounting systems currently report at the "program" input level, but mostly not by exercise. OSD reports at the highest level: CIF, ORF, & Misc. Services (the category that includes JEP). The military services report at a lower level, breaking Misc. Services into: CTP, PH, IT, etc., but most only report totals not broken down by individual joint exercise.

GRAPH 1: Total Costs by Transportation Category

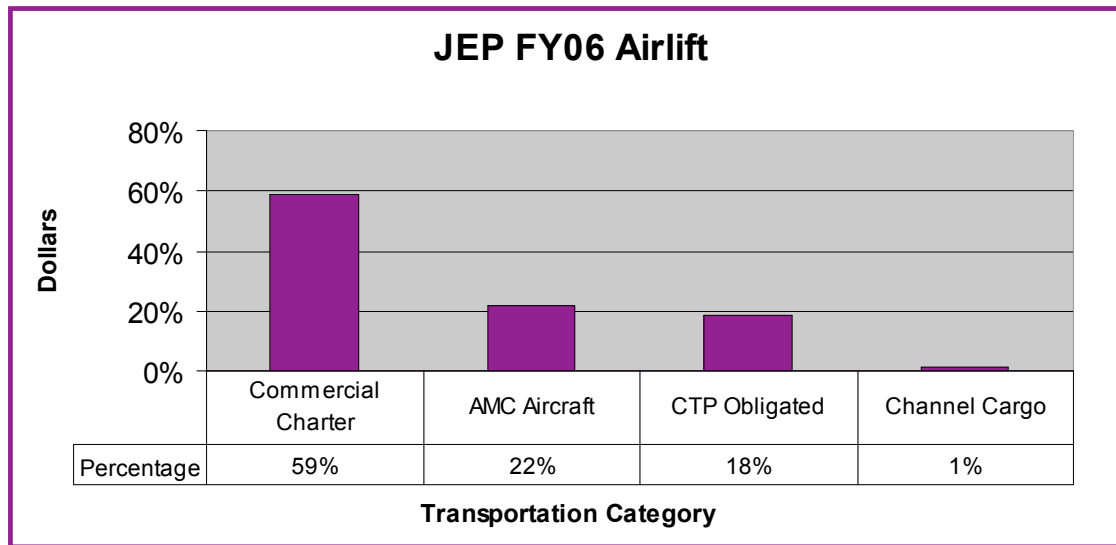


Where can J7 get its biggest return from efficiencies?

The costs illustrated in Graph #1 roughly correspond to the total cost categories distributed along the bottom row of the middle matrix in Figure 2. Examining the distribution of these costs over the different strategic lift components, it is clear that in FY2006 over 80% of the Strategic Lift budget could be attributed to Airlift and Sealift. In fact over 60% of the budget is due to

Airlift alone. Adding Commercial Ticketing brings it up to 60%.

Graph #2 focuses exclusively on Airlift. The graph reveals the different components (inputs) that make up Airlift. It is clear from the data collected for FY2006 that Commercial Charter is by far the largest component of Airlift costs. It is also the largest single component of overall spending on Strategic Lift.

GRAPH 2: Total Costs of Airlift by Category

USTRANSCOM (AMC) Perspective: The bottom matrix in Figure 2 breaks Airlift into its various components, illustrating the Activity-Based Costing/Budgeting matrix for Airlift perspective of USTRANSCOM's Air Mobility Command (AMC). The resulting matrix offers an opportunity to identify more efficient substitution possibilities in the "Internal Business" (production function) component of SUCCESS in Figure 1. (Similar matrices could be constructed for Sealift from the perspective of USTRANSCOM's Military Sealift Command (MSC) and Surface Deployment and Distribution Command (SDDC). The constrained optimization problem faced by USTRANSCOM is to choose the optimum mix of airlift assets that minimizes the costs of satisfying the demands of each exercise. But this requires AMC to have data that supports an evaluation of alternatives in the optimization. This is one of the desired outcomes of the ongoing J7/JEP-SUCCESS data collection project. Another opportunity uncovered by the project is for more timely submissions by the COCOMs of accurate demand forecasts to increase the ability of AMC to compete commercial contracts to lower the costs of Airlift.

IV. Leveraging SUCCESS+PPBE for JEP

Historically, PPBS emphasized the equivalent of the preliminary (Planning, Programming, and Budget estimation) loop through SUCCESS. [Figure 1] In 2002 two major modifications to PPBS occurred.⁶ First, a shift to a two-year cy-

cle was implemented, and second an "Execution" phase was added. The name was changed to PPBE to reflect the new emphasis on budget "Execution" and the "Evaluation" of results. [OSD Management Initiative Decision (MID 913)] The recent change to a two-year cycle in the PPBE process roughly corresponds to two loops through the SUCCESS model illustrated in Figure 1.

EXECUTION & EVALUATION: The first loop of the PPB cycle illustrated in Figure 1 results in a

⁶ In fact, three major modifications to PPB occurred in DoD in 2002. First, a shift to a two-year cycle was implemented, second, there was a renewed emphasis on up-front decisions (the "Enhanced Planning Process"; SPG; JPG) to provide stronger guidance to the Services, and third an "Execution" phase was added. While Congress still appropriates the defense budget on an annual basis, DoD now commits to a two-year budget, partly to reduce redundant and costly program reviews. Arguably, the most significant change is that in every even or "On-Year" of a two-year cycle, an attempt is now made to accomplish department-wide global optimization at the front-end of the process instead of at the back-end i.e. to make across-service trade-offs early to guide the production of joint capabilities (outputs), and the corresponding program decisions on platforms and weapon systems (inputs). The theory is that if programs are "born joint" instead of being cobbled together late in the process, this will improve "allocative efficiency" (increasing military effectiveness) and contribute to "operational efficiency" (cutting defense costs).

"Planned Budget" submitted to Congress. After extensive review, Congress passes defense budget authorization and appropriation bills that become law. These laws grant DoD "obligation authority" stating the maximum dollar amount of

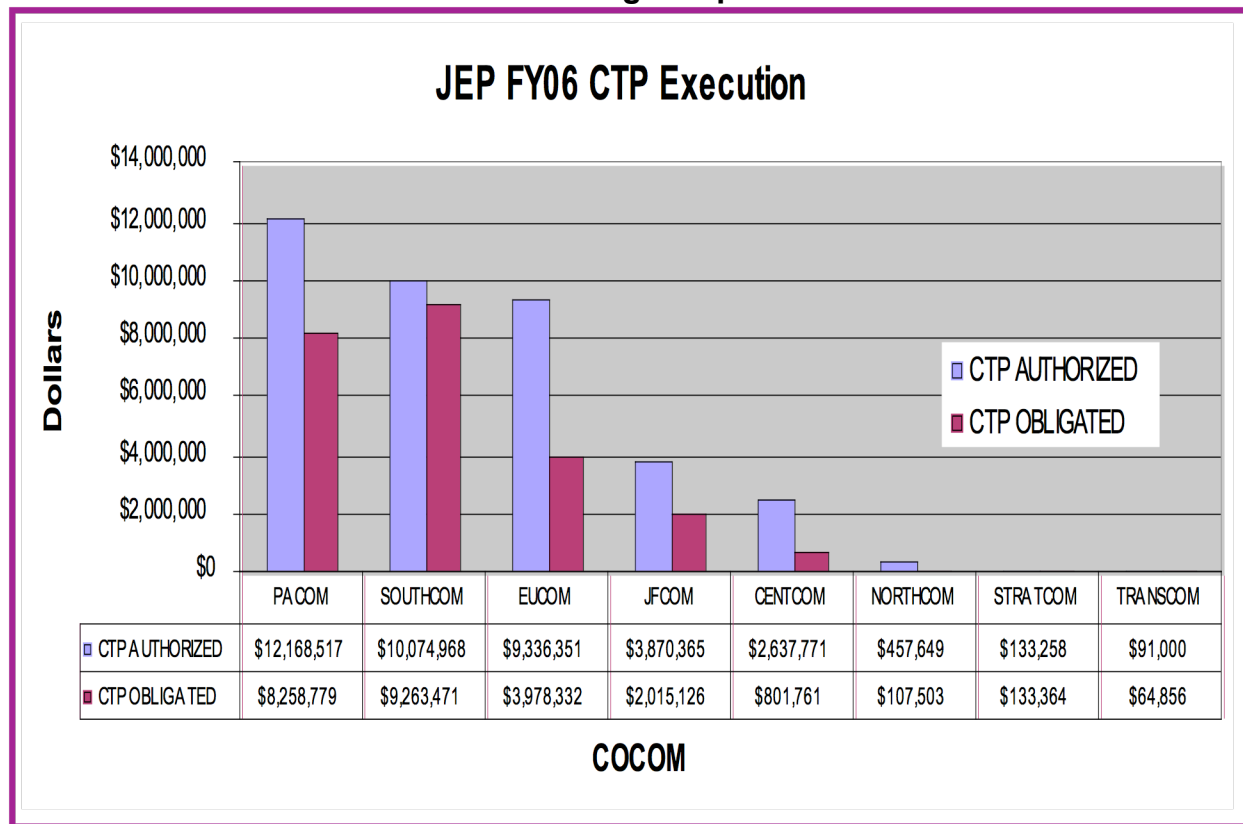
contracts, etc. that can be entered into in the budget year. The passage of these bills launches a second loop through SUCCESS. Whereas the first loop through SUCCESS (Figure 1) has a Planning, Programming, and Budget *estimation/forecasting* focus, the second loop focuses on actual "Execution" (converting inputs into outputs, i.e. spending the defense budget on transporting troops, equipment, etc.) and "Evaluation" (producing transportation and training capabilities and evaluating the outcomes).

Working back up the three matrices in Figure 2 illustrates how actual expenditures could be

rolled up to identify the realized Strategic Lift Budget for Joint Exercises. This results in an "Actual Budget" for Strategic Lift for JEP that can be compared with the "Planned Budget" to improve future forecasting. Continuously monitoring differences between planned and actual costs (and performance) not only satisfies the spirit of GPRA, but can also help reveal returns on the nation's defense investments. This has the potential to increase accountability, efficiency and effectiveness in DoD, and to result in more realistic budget estimates generated by the PPBE process.

GRAPH 3: Planned vs. Actual CTP by COCOM

How are the COCOM's doing compared to one another?



Graph #3 illustrates each COCOM's Authorized Funds (roughly their "planned" budget for CTP) and Obligated Funds (roughly their "actual" expenditures on CTP). The differences that appear between planned and actual budgets for many COCOMs are significant. Revealing these differences could motivate investments to provide near real-time data streams, and to improve forecasts, so that scarce funds can be released for other pressing activities, such as expanding

existing exercises or funding previously unfunded exercises.

V. Conclusion

A key challenge that faces federal agencies as they struggle to satisfy GPRA mandates is to adapt conventional business management, measurement, and accounting frameworks to

the public sector. The SUCCESS model is designed to help bridge the gap between business and government. Combined with appropriate incentives, implementing a framework with these features could facilitate realization of the three chief aims of GPRA: to improve executive and congressional decision-making, to promote better internal management of government programs, and to increase accountability to taxpayers. [GPRA 1993: Public Law 103-62]

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20 AUG – 31 AUG	Multi-Criteria Decision Making	MCDM 07-1	2
20 AUG – 14 SEP	Defense Resources Management Course	DRMC 07-5	4
17 SEP – 26 SEP	Budget Preparation, Execution and Accountability	BPEA 07-1	1.3
24 SEP – 07 DEC	International Defense Management Course*	IDMC 07-2	11

* This course convenes in one fiscal year and continues into the next fiscal year.

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07 JAN – 01 FEB	Defense Resources Management Course	DRMC 08-1	4
04 FEB – 15 FEB	Multi-Criteria Decision Making	MCDM 08-1	2
04 FEB – 16 APR	International Defense Management Course	IDMC 08-1	11
21 APR – 25 APR	Financial Integrity, Accountability and Transparency	FIAT 08-1	1
21 APR – 15 MAY	Defense Resources Management Course	DRMC 08-2	4
19 MAY – 23 MAY	Streamlining Government through Outsourcing, Privatization and Public/Private Partnerships	SGOP 08-1	1
19 MAY – 13 JUN	Defense Resources Management Course	DRMC 08-3	4

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21 JUL – 14 AUG	Defense Resources Management Course	DRMC 08-4	4	
04 AUG – 15 AUG	Base Realignment, Closure and Economic Redevelopment	BRCER 08-1	2	
18 AUG – 12 SEP	Defense Resources Management Course	DRMC 08-5	4	
01 SEP – 12 SEP	Multi-Criteria Decision Making	MCDM 08-2	2	
15 SEP – 24 SEP	Budget Preparation, Execution and Accountability	BPEA 08-1	1.3	
22 SEP – 05 DEC	International Defense Management Course*	IDMC 08-2	11	

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